



# CITY OF EAU CLAIRE

FINANCE DEPARTMENT  
Finance Administration  
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June 30, 2004

City Council  
Citizens of Eau Claire  
Eau Claire, Wisconsin

The *Comprehensive Annual Financial Report* of the City of Eau Claire, Wisconsin as of and for the year ended December 31, 2003 is prepared to provide the Council, our citizens, and other interested persons, detailed information concerning the financial condition of the City government. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City government. We believe the information as presented is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds and component units; and that all disclosures necessary to enable the reader to gain reasonable understanding of the City's financial affairs have been included.

## Report Format

This *Comprehensive Annual Financial Report* is presented in three main sections: introductory, financial, and statistical. The introductory section includes a list of the City's principal officials, the general government organizational chart, and this transmittal letter. The financial section includes the independent auditors' report, management's discussion and analysis, government-wide financial statements, notes to financial statements and more detailed fund financial statements. A third section provides selected statistical and general information presented on a multi-year comparative basis.

## Reporting Entity

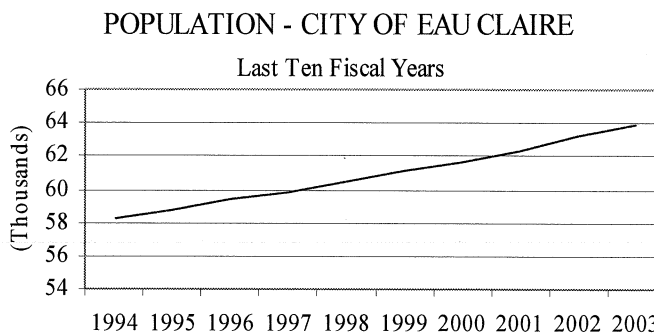
This report includes all of the funds and component units of the City of Eau Claire. The criteria used in determining the reporting entity are consistent with criteria established by the Governmental Accounting Standards Board (GASB) as outlined in the Codification of Governmental Accounting and Financial Reporting Standards. This report includes the General fund, which accounts for the general administration of the City, and the Special Revenue funds relating to Economic Development, Community Enhancement, Downtown, Cemetery Maintenance, the Hazardous Materials "A" Grant, the Public Library, the City-County Health Department, Community Development, Home Grant, and the Former Landfill Escrow. The report also includes the City's Enterprise funds that account for the Water, Sewer, Storm Water Management, Parking, and Transit Utilities, the Hobbs Ice Center, and the Outdoor Pool. Internal Service funds provide information on the operations of the Risk Management and the Central Equipment functions.

Financial data for the Housing Authority, the Redevelopment Authority and three Business Improvement Districts is included in the reporting entity by discrete presentation because they are component units of the City. The Housing Authority was formed to engage in the development and operation of low-income housing. Such projects are regulated by the United States Department of Housing and Urban Development (HUD) and the Wisconsin Housing and Economic Development Authority (WHEDA). The Redevelopment Authority was created by the City Council in 1991 for the purpose of eliminating and preventing substandard, deteriorated, slum and blighted areas or properties and encouraging urban renewal. The Downtown, West Grand, and Water Street Business Improvement Districts account for the collection of special assessments from their members for business promotion within each district.

## General Information

The City of Eau Claire is located in west central Wisconsin, in Eau Claire and Chippewa counties. The City was established as a lumbering settlement in the 1840's. Today it serves as the major center for health and professional services, education, retail trade, technology, and industry in west central Wisconsin. The City was incorporated in 1872, and covers an area of approximately 33 square miles. The City's current population is 63,882 and the population of the Greater Eau Claire Metropolitan Area is approximately 150,000.

The City of Eau Claire has a council/manager form of government with the City Council president and the ten Council members elected to serve two-year terms. Five of the Council members are elected at large in the even numbered years, while the other five members are elected by district in the odd numbered years. The Council president is also elected at large in the odd numbered years.



## ECONOMIC CONDITIONS AND OUTLOOK

The City of Eau Claire's economic activity in 2003 reflected the general nationwide downturn. However, the City's broad-based business sector has minimized the negative impact of the recession. Strong retail outlets, regional medical facilities, high technology companies, and educational institutions anchor Eau Claire's economy. The diverse employment base has allowed the City to continue a moderate rate of growth.

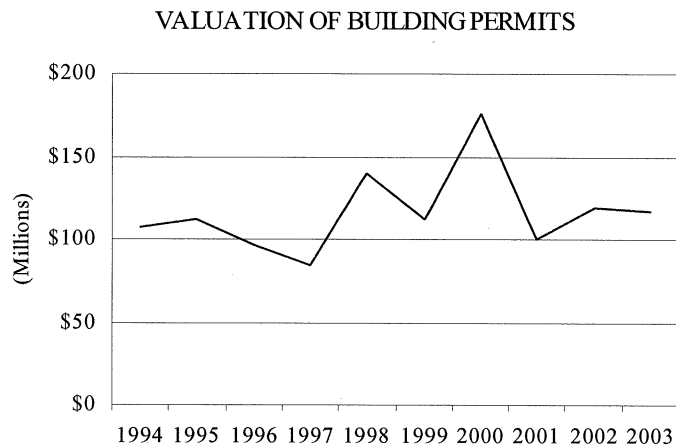
Building permit valuations were solid at \$117 million, but did not approach the 2000 record of \$175.5 million. The major development areas were in the residential and commercial segments. Some of the notable commercial projects included a technical college expansion, a credit union corporate headquarters, a new grocery store, a new hotel, and a hospital addition.

While the City lost some major employers in 2003, the City is beginning to see the payback from its re-development efforts. In the downtown area, a \$12 million dollar office building is being constructed on the site of a former brownfield. It is at the heart of a revitalization effort that includes the acquisition and demolition of blighted properties, the creation of new building sites, a community park, a trailhead, and a farmer's market. Overall, the City will invest over \$13 million in public projects to reclaim and redevelop the City's downtown.

At the site of a former mall, new development has resulted in a restaurant, grocery store, and home furnishings store with total valuations of over \$6 million. These examples of blight elimination and the reuse of distressed properties are evidence that the development community is willing to invest in the City.

Current economic priorities for the City include infrastructure expansion in the City's tax incremental financing (TIF) districts. Plans are in place for a \$9.6 million investment in streets, utilities and storm drainage for an industrial TIF on the City's west side. TIFs in other areas are providing infrastructure improvements to stimulate commercial redevelopment.

The City has been consistently recognized by national surveys as a highly rated area for overall quality of life. The Forbes Best Small Places for Business and Career ranked Eau Claire near the top third of 168 metropolitan areas. Expansion Management magazine rated the City's school district as one of the nation's best. The Eau Claire school district was identified as the fifth highest amongst all metropolitan areas with enrollments of at least 3,300 students. The factors that go into rankings like these are the same factors that continue to attract businesses and workers to the Eau Claire area.



## **MAJOR INITIATIVES**

The following were among the many diverse activities to which both elected officials and staff devoted their energies in 2003 and into 2004:

### **Downtown Development Area**

One of the most significant projects ever undertaken in the city is the redevelopment of the downtown area. Through a TIF District, the City will provide \$13.85 million to acquire and demolish blighted properties, refurbish the streets and utilities, and develop a community park at the confluence of the Eau Claire and Chippewa Rivers. Grants and donations will assist with the financing of a Farmer's Market and Trailhead. In 2003, the major activities for this project included blight removal and replacement of the utilities.

### **Shared Services**

As a possible means of reducing expenditures for public services, the City, the County, and other entities are looking at consolidating and sharing services. An early success has been the City and County Purchasing functions that have been combined into one department and expanded to a regional consortium.

### **Comprehensive Plan**

In 2003, the City initiated a three-year project to update the Comprehensive Plan as a policy document for the community's long-range physical development, including land use, transportation, parks, utilities, economic development, and community image.

### **Tax Exemption Lawsuit**

The City prevailed in both the Circuit Court and Court of Appeals in a lawsuit brought by a medical entity claiming to be tax-exempt. Since the entity has facilities throughout the State, the decision favorable to the City has statewide implications. In Eau Claire, the decision means that about \$9.6 million will remain on the tax base.

### **Parking Ticket Administration**

A new system for administering parking tickets was instituted in June 2003. Community Services Officers (CSOs) were provided with hand-held computers that automatically print out tickets in an easy-to-read format. The computers provide the CSOs with all information needed in the field regarding fines and amounts as well as information about repeat offenders.

### **Public Safety Software System**

The first phase of a new public safety software system that integrates Records Management, Computer Aided Dispatch, and Jail and Fire Department information was implemented in 2003. Phase two modules to be implemented include the mobile data browser, mapping features, document imaging, and mug shot photo programs.

## **Highway 53 Freeway**

The City continued to work with the Wisconsin Department of Transportation to relocate utilities to accommodate the Highway 53 Freeway Project. Grading of the North Crossing extension began in July 2003. The entire freeway project is tentatively planned to be opened to traffic in the fall of 2006.

## **FOR THE FUTURE**

In 2003, the State of Wisconsin's fiscal deficit resulted in the State reducing its projected 2004 shared revenues allocation to the City by \$1.1 million. Other state aids were also reduced, while the City's wages and benefits, debt service, and other costs continued to increase. As a result, the City was facing a potential 2004 budget deficit of \$2.9 million. To address the budget problem, the City developed a Budget Blueprint to identify new revenues and expenditure reductions to be implemented over the next 3 years. As a result of the work done preparing the Budget Blueprint in 2003, the City was able to identify fee increases, benefit reductions, and 29.5 positions to be eliminated through attrition. The City Council met the Governor's request to maintain the 2003 tax rate for 2004 in spite of the reductions in State aids. The 2004 budget limited the levy increase to the growth in the tax base, and actually reduced the tax rate slightly.

The City has reduced services in proportion to the staff reductions. The changes include consolidating Transit routes, eliminating the Fire Department Heavy Rescue Unit, reducing parks maintenance, less time for Police Special Services, sharing Purchasing functions with the County, outsourcing curb and gutter work, eliminating neighborhood services, and engineering, custodial, and technical reductions.

As the City approaches the 2005 budget, the major issues will focus on the effects of the State legislature's proposals to further limit levy increases. The City's ability to finance and promote economic development, continue infrastructure improvements, and to offer basic services will be impacted by the legislature's actions.

## **FINANCIAL INFORMATION**

### **Accounting System and Budgetary Control**

The diverse nature of government operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. From an accounting and financial management viewpoint, a governmental unit is a combination of several different fiscal and accounting entities, each having a separate set of accounts and functioning independently of each other. Each accounting entity is accounted for in a separate fund. A fund is defined as a fiscal accounting entity with a self-balancing set of accounts recording cash and other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Budgetary control is maintained through an annual budget ordinance passed by the City Council. Formal budgetary integration is employed as a management control device during the year for the General fund, Debt Service fund, and certain Special Revenue funds, and is adopted on a basis consistent with generally accepted accounting principles. Fixed, long-term budgets on a project basis are used for Capital Project funds. Flexible annual budgets are approved for proprietary funds to provide for financial management. The City Manager and Director of Finance may authorize transfers of budgeted amounts within departments; however, transfers between departments and additional appropriations to the original budget must be made by Council resolution. The level at which expenditures may not exceed budget is by department.

### **Internal Control**

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits likely to be derived and that the evaluation of cost and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

## Cash Management

The cash management program consists of two phases. The first phase is a contractual agreement with Wells Fargo Bank for services. This contract specifies that the bank will pay interest on account balances based on the 13-week Treasury Bill rate.

The second phase is a long-term investment program. Funds that are available for 30 days or longer are placed in Government Agency bonds and notes, U.S. Treasury securities, or the State-maintained Local Government Investment Pool. The maximum limits on the amount of funds which can be placed in any one type of investment are as follows:

Local Government Investment Pool	80%
Obligations of Federal Government	80%

Deposits in excess of \$500,000 must have collateral agreements. The following summary shows investment earnings and the average interest rate for the past five years.

<u>Year</u>	<u>Amount</u>	<u>Net Return</u>
1998	\$3,716,529	5.53%
1999	3,425,756	4.68%
2000	4,320,757	6.44%
2001	2,989,323	4.65%
2002	1,657,268	2.33%
2003	873,822	1.26%

## Risk Management

The City has joined other Wisconsin municipalities for liability insurance services. The City is one of 14 local governments that are members of Wisconsin Municipal Mutual Insurance Company (WMMIC) which has provided risk management and liability insurance services since January 1, 1988. Under this program, the City's self-insured retention is \$200,000 per occurrence to a maximum of \$400,000 per year. Transit Mutual Insurance Company of Wisconsin (TMICOW) consists of 18 municipalities, including the City, and provides auto liability coverage for property damage and bodily injury for Public Transit vehicles.

The objective of these programs is to protect the City against accidental losses, destruction, or depletion of its assets. The Risk Manager will review and award recommendations prior to payment by the insurance company. Judgment or award recommendations covered by WMMIC in excess of \$10,000 will be reviewed with the City Council prior to payment.

On January 1, 1992, the City of Eau Claire began self-insuring its primary exposure for workers' compensation. The City retains the first \$250,000 per occurrence with an annual aggregate on total claims of \$1,000,000 and purchases excess coverage from a private carrier.

## **INDEPENDENT AUDIT**

Included in the financial section is the independent auditor's report which is a significant part of the Comprehensive Annual Financial Report (CAFR). In this report, Virchow, Krause & Company, LLP, Certified Public Accountants, express their opinion that the financial statements are presented fairly in conformity with generally accepted accounting principles and comment on the scope of the examination. The opinion is unqualified and signifies a substantial level of achievement. Compliance audits of the City's federal and state financial assistance programs for the year ending December 31, 2003 were also completed by the independent auditors. These reports are available under separate cover.

## **REPORTING ACHIEVEMENT**

### **GFOA Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Eau Claire for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2002. The City has received this award each year since 1984.

In order to receive a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

### **GRATE Certificate of Commendation**

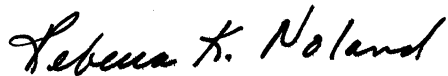
Governmental Reporting Awards Through Evaluation (GRATE) awarded a Certificate of Commendation to the City of Eau Claire for "achieving a level of quality in their financial statements for the year ended December 31, 2002 that merits commendation, and for accepting their responsibility for accountability through the utilization of Generally Accepted Accounting Principles (GAAP)". The purpose of the GRATE program is to promote the highest level of financial reporting in local governments in Wisconsin. The City has achieved the GRATE certificate each year since 1986.



## ACKNOWLEDGMENTS

We would like to thank the City Council for their support in planning and conducting the financial operations of the City in a responsible manner. In addition, we would also like to express our appreciation to Tom Hoff, Financial Services Manager, Denny Shea, Accounting Supervisor, Kathy Breault, Accountant Analyst; Cathy Marohl, Accountant, Pat Hoepner, Accounting Technician; and the remainder of the Finance Department Staff for their dedication in preparing this report.

Respectfully Submitted,



Rebecca K. Noland, CPA

Finance Director



Don T. Norrell, CPA

City Manager